Cosmo School

**Class: 10**
**Subject: Finance & Banking**
**Chapter: 07 (Share, Bond and Debenture)**

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## Important Topics Exposition:

*[The important information of this chapter has been provided here at a glance.]*

### A. Share & Its Classification:

Selling of shares is an important source of gathering fund for public limited companies. The voluminous total capital of the company is divided into small (equal) units and those are sold as shares. Now we can say that, a share is the smallest unit, into which the capital of the company is divided.

To attract different types of investors, company issued different types of shares. The types of share are: General Share, Priority Share, Deferred Share, Right Share and Bonus Share.

### B. General Share / Ordinary Share / Common Share:

According to the low, the shares whose owners enjoy more benefits and dignity considering the various aspects of rights, duties and responsibilities but do not get priority when dividends are distributed and property claims are met in the time of company closure are called General Share.

#### Features:

As a tool of investment, general shares have some special features. Those are described below:

**a)** General shares provide ownership to the share investors. As a result, as an owner he has the legal rights on its profits earned and its properties.

**b)** General shares give full authority to its owners to control the company. Shareholders control the company by applying their voting right in taking important decisions.

**c)** General shares are easily transferable. The investor according to his wish can handover the shares at his ownership at any time.

#### Advantages:

As a tool of investment general shares have some advantages:

1. **Dividend:** An investor is entitled to receive a dividend from the company. It is one of the two main sources of return on his investment.
2. **Capital Gain:** The other source of return on investment apart from dividend is the capital gains. Gains which arise due to rise in market price of the share.
3. **Limited Liability:** Liability of shareholder or investor is limited to the extent of the investment made. If the company goes into losses, the share of loss over and above the capital investment would not be borne by the investor.
4. **Exercise Control:** By investing in the company, the shareholder gets ownership in the company and thereby he can exercise control. In official terms, he gets voting rights in the company.
5. **Liquidity:** The shares of the company which is listed on stock exchanges have the benefit of any time liquidity. The shares can very easily transfer ownership.

## Disadvantages:

As a tool of investment general shares have some disadvantages:

1. **High Risk:** Investment in general shares is comparatively more risky. There are many speculating investors in the share market. As a result, there is risk of doing loss if the investment is not guided by knowledge and good calculations.
2. **Fluctuation in Market Price:** The market price of any equity share has a wide variation. It is always very difficult to book profits from the market. On the contrary, there are equal chances of losses.
3. **Limited Control:** An equity investor is a small investor in the company; therefore, it is hardly possible to impact the decision of the company using the voting rights.
4. **Residual Claim:** An equity shareholder has a residual claim over both the assets and the income. Income which is available to equity shareholders is after the payment of all other stakeholders.

# C. Priority Share:

According to the low, the shares whose owners get priority in receiving dividend and in claim on the property are called priority shares.

## Features:

Like that of general shares priority shares also have some own features and characters:

a) **Ownership:** Priority shareholders are not told full owners of the company. They are considered in between the owners of general shares and the owners of bonds and debentures.

b) **Transformability:** For many priority shares alternative options are there to transform them into general shares. So, if the investor wishes, he can change his status to an owner of general shares.

From the perspective of the investors, priority shares have some advantages and disadvantages.

## Advantages:

The advantages of priority shares are discussed below:

a) **Income at Certain Rate:** The owners of priority shares get dividend at some certain rate. As a result, the shareholders have less uncertainty of income.

b) **Priority on Profit Income:** While giving dividend, owners of the priority shares get priority over the owners of the general shares.

c) **Claims on the Properties:** At the time of liquidation or closure of the company, claims of the owners of priority shares are first considered before meeting the claims of the owners of general shares. But of course, their claims are met after fulfilling the claims of the owners of debentures.

## Disadvantages:

The disadvantages of priority shares are discussed below:

a) **Control:** The priority shareholders do not have any voting right. So they have no control over the company.

b) **Limited Income:** Priority shareholders' rate of income is fixed. Hence, priority shareholders do not get any share of extra profits made by the company.

## D. Deferred Share:

Deferred shares are those shares for which the owners receive dividend after dividend have been distributed to all other classes of shareholders.

## E. Right Share:

When old shareholders get priority in shares in the case of selling shares after the formation of the company, these shares are called right shares.

## F. Bonus Share:

When company's undivided earnings are not given out in the form of cash dividend but are converted into free shares and given to old shareholders, these are called bonus shares.

## G. Bond:

Bond is a document or agreement through which a company gathers loan capital from the investors. This s a loan with mortgage. The interest rate is fixed in bonds.

### Features:

Bond has some particular own features and characters from the perspectives of investors. Those are discussed below:

a) **Mortgage:** A company usually keeps its property or documents as mortgage against bonds. As a result, if the company is not able to meet the claims of the investors, they can realize their money by selling these properties.

b) **Date of Maturity: A** bond issued by a company has some certain date of maturity. On that date of maturity the investor gets back the written value as mentioned in the bond.

c) **Creditor:** Bond owners are considered as the creditors of a company. So they have no voting right.

d) **Transformability:** Many a time, a company may sell transferable bonds to the investors. In such cases, if the bond owners wish, they can transform the bonds at their possession to certain number of general shares as mentioned in the conditions of the debenture.

## H. Debenture:

Debenture is the document or agreement through which a company gathers loan capital from the investors with no obligation for mortgage. The debenture document specifies interest rate, maturity date and other conditions. The interest rate is fixed in debenture well. Investors usually invest their money in debentures issued by big renowned companies.

## I. Share Market:

The market in which the shares, bonds and other securities of public limited companies are traded is called the share market.

## J. Stock Exchange:

For well performance of activities of buying and selling of shares of share-issuing companies and investors, a well-established organization is needed. Such an organization is called stock exchange. Stock exchange helps companies to gather fund from general people or organizations and arranges a fixed place for the investors for buying and selling of shares.

## K. Share Market / Stock Exchanges in Bangladesh:

There are two stock exchanges in Bangladesh:

1. Dhaka Stock Exchange Limited
2. Chittagong Stock Exchange Limited

Usually indexes are used to understand the trend or overall condition of the share market. For example, in Dhaka Stock Exchange the following three indexes are used, namely:

a) All Shares Price Index
b) DSE General Index and
c) DSE 20 Index

In this way, in Chittagong Stock Exchange three indexes are used, namely:

a) CSE All Shares Price Index
b) CSE Selective Categories Index and
c) CSE 30 Index

## L. System of Investment in Shares:

Investors can invest in share markets in two ways:

i. Through Primary Market
ii. Through Secondary Market.

**Primary Market:** Primary market means that market where a company announces the initial public offering (IPO) for selling its shares. When a company sells its shares in the market for the first time, that offer for selling is called IPO. If an investor buys shares by participating in the IPO offered by any company, it is considered that he has bought primary shares.

**Secondary Market:** After selling shares for the first time by a company to the investors, the investors can buy and sell shares among themselves. The market where investors buy and sell shares among themselves is called a secondary market.

## M. Dividend:

The portion of gains or profit which is distributed among the shareholders is called dividend.

A company can give dividend usually in two ways:

**a)** Cash Dividend
**b)** Stock Dividend or Bonus Share

**a) Cash Dividend:** The dividend which is paid in cash money is called cash dividend.

**b) Stock Dividend:** A stock dividend is a dividend payment made in the form of additional shares to old shareholders rather than a cash payout.

## N. Dividend Policy:

The systematic process through which a company distributes its dividend to its shareholders is called dividend policy.

Usually, three types of dividend policies are found, such as:

1. Fixed money dividend policy
2. Dividend payment ratio policy
3. Fixed dividend along with additional dividend policy

## Some Questions for Self-assessment:

1. Many times, what kind of dividend does a company pay instead of cash dividend?
2. What is the secondary market?
3. What is primary share market?
4. What is right share?
5. What is dividend?
6. Which investor enjoys equal status of general creditors?
7. Which is called founder shareholder?
8. What does it mean by share?
9. What is called IPO?
10. What is used to understand the trend or over all condition of the share market? Explain.
11. Why the debenture holders do not play any rle in case of directing a company? Explain.
12. Why fixed dividend along with additional dividend policy is an ideal policy? Explain.
13. What do you mean by transformability of share?
14. By paying which kind of dividend the number of share of a company increases? Explain.
15. Discuss the advantage of debenture?
16. Explain the liquidity of general share.
17. What do you mean stock dividend?
18. In which share is he investment highly risky? Explain it.